

News on *Investing* for *Retirement*

A Quarterly Newsletter for **FRS Investment Plan Participants**

Balance Your Retirement Income Diet

So, you've chosen the Investment Plan and selected a mix of investment funds to fit your financial goals and risk tolerance. But, what else is on your retirement income menu?

Although Social Security is a hotly debated topic, it is likely to remain a staple of the American retirement diet for many years. But, relying only on your FRS plan benefit and Social Security could leave a gap in your post-retirement income. Recently, the FRS sent you a Personal Retirement Forecast that shows if you'll need to beef up your personal savings to ensure a hearty retirement income diet.

As a public employee, your employer may allow you to participate in a 457 plan (deferred compensation plan) or a 403(b) plan (tax-deferred annuity or account). These are special kinds of retirement savings plans that allow you to make automatic investments from your paycheck or from a bank account. Besides making regular saving easy, these plans give you something extra – a vacation from taxes!

Pre-tax payroll deductions allow you to put money aside for retirement, before the government collects taxes on your salary. This means that you delay paying taxes on the money deducted from your paycheck. You'll pay taxes on the money eventually, but not until you withdraw it during retirement. In the meantime, your retirement savings can grow without being reduced by taxes.



Here's an example of the power of pre-tax savings.

Let's suppose that Michelle is 32 years old and pays 25 cents of every \$1 of her paycheck in taxes to Uncle Sam. Her boss just gave her a raise, so she's decided to save \$75 per month out of her take-home pay.

>> If Michelle puts \$75 in a regular taxable account, she would pay taxes on her interest earnings each year. After 30 years (assuming an interest rate of 7% per year), Michelle would have approximately \$65,704 as a nest egg.

Want help with fees and investments?

>> Call the toll-free MyFRS Financial Guidance Line at 1-866-44-MyFRS, option 1 (1-866-446-9377; TTY 1-888-429-2160); or

>> Log on to www.MyFRS.com.

>> If Michelle can afford to save \$75 out of her already-taxed take-home pay, she can afford to have \$100 taken out of her monthly paycheck before tax and put directly into her 457 account, which is tax-deferred. (The \$25 difference is the tax she would have paid on the \$100 if it had not been taken out of her paycheck before taxes.) She will not pay taxes on her savings until she withdraws the money from the 457 program.

After retiring in 30 years, that \$100 a month could grow to give Michelle approximately \$90,966 as a nest egg upon withdrawal (assuming an interest rate of 7% per year), even after paying taxes*—that's \$25,262 more than if she had put her money into a regular, after-tax account!

*This example assumes that Michelle's tax rate will be the same at retirement as it is now.

To speak with an experienced and unbiased financial planner from Ernst & Young, call the MyFRS Financial Guidance Line at 1-866-44MyFRS. A representative can help you:

- >> Understand your pre-tax saving options; and
- >> Determine what investments best suit your goals and circumstances.

MyFRS.com also offers calculators you can use to understand traditional and Roth IRAs (look in the green toolbar in the upper right hand corner of the home page).

This is a very basic description of tax-deferred accounts, and many of the specifics will vary with your individual circumstances and goals. But, when it comes to retirement planning, it never hurts to consider the whole menu of planning options. Bon appetit!



How To Read Your Statement

As a helpful refresher on how to get the most out of your quarterly statement, we are including a copy of the *How to Read Your Statement* brochure. If you have any questions about your statement, call CitiStreet today at 1-866-446-9377, and select Option 4.

Spread The Word About Investing DROP Money With FRS!

Senate Bill 1446 (Chapter 2003-253, Laws of Florida), which was passed during the 2005 legislative session, allows FRS Pension Plan members to roll over some or all of their DROP accumulation to the FRS Investment Plan. This allows DROP participants to keep their money in the FRS and take advantage of the low cost investment products offered through the Investment Plan. It is likely that DROP participants can invest with the FRS at a lower cost than they would experience with other plans.

We want to inform all DROP participants (past, present, and future) about the option of investing their accumulation in the FRS Investment Plan. If you have friends and co-workers who aren't sure what to do with their DROP accumulation, help us make them aware of this option. Encourage them to call the toll-free MyFRS Financial Guidance Line (1-866-44MyFRS) to speak with an unbiased professional financial planner.

Quarterly Fund Performance Summary

Overview

This Performance Summary is organized by asset class. *Thinking about asset classes is a very effective way to simplify investing and improve the odds of meeting your retirement goals. Asset classes are groups of similar investments whose values react to changes in the economy in the same basic way. Investing in a mix of asset classes, or diversifying, helps you control your risk. In this Summary, we use five asset classes: money market, inflation-protected securities, bonds, U.S. stocks, and foreign stocks. We also have a special category called balanced funds that are a mixture of various asset classes.*

>> Balanced Funds

These funds are particularly good for “one-stop shopping.” They seek favorable long-term returns by keeping costs low and investing across multiple asset classes to diversify and control risk. They invest in various investment funds in different proportions to keep their overall level of risk relatively steady over time. The proportions and specific funds included in each Balanced Fund may change over time. Financial Engines, a federally registered investment advisor and fiduciary to the FRS, will periodically provide updated investment fund mixes to the FRS that they believe will provide the best trade-off between expected risk and return.

>> Money Market Funds

These funds invest in short-term securities (financial instruments or obligations) that are high quality and can be sold quickly with little loss of value. The funds have limited risk of declining in value; however, over the long term, returns have been modest, basically keeping pace with inflation. Money market funds are not FDIC insured or guaranteed.

>> Inflation-Protected Securities Funds

These funds invest in *United States Treasury inflation-protected securities* or “TIPS.” TIPS are a relatively new type of investment and provide two types of return. First, there’s a fixed interest rate that’s been around 2% to 4% since TIPS were first issued in 1997. Second, there’s a return of *principal* (the starting amount of your investment) and *interest* (the additional earnings you get over time) that is “protected,” or indexed to inflation. As inflation rises, so does the amount of principal and interest you receive. So if the fixed rate is 3% and inflation is 3%, you receive a total interest rate of about 6%. The day-to-day value of inflation-protected securities varies with changes in inflation and interest rates, but these funds offer a promise of keeping up with inflation that is unique to this type of investment.

>> Bond Funds

These funds invest primarily in *bonds*, which are like IOUs – a company or government agency borrows money and pays it back with interest to the bondholder (the person making the loan). The quality of a bond is reflected in the credit rating of the company or agency that issues the bond. The short-term risk of bond funds is relatively low. However, over time, the value of a bond is affected by interest rates, inflation, and other factors. When inflation or interest rates go up, the value of bonds goes down because they pay a fixed rate of interest (the market sees other investments as being more attractive). Therefore, bonds and bond funds don’t always protect the value of your retirement savings against inflation.

>> U.S. Stock Funds

These funds invest primarily in *equity shares* or *stocks* issued by U.S. companies. The short-term risk of stocks has been much higher than bonds. However, over long periods of time, stocks have generally done better than bonds, one of the main reasons that stocks are typically recommended for retirement investing. Some risk is necessary to achieve long-term investment growth.

>> Foreign Stock Funds

These funds invest primarily in *equity shares* or *stocks* issued by foreign companies. Compared to U.S. stocks, foreign stocks are affected by additional risk factors such as foreign laws and regulations, differences in accounting practices, political risk (foreign governments are sometimes unstable), and currency risk (differences in the relative value of domestic and foreign money). Over the long term, foreign stocks have not done quite as well as U.S. stocks, but they have provided diversification benefits.

↳ Experts say that **90% of your investment success will be based on getting the right mix of investments in your retirement savings.** The MyFRS Financial Guidance Program can help guide you to the right mix of investments for your personal situation and minimize unnecessary cost and risk. (See the details at the end of this document.)

What's in the Summary

Below you'll find a brief description of the information in the Performance Summary.

- >> **Core Funds** invest in a very broad portion of an asset class and can help you form the "core" of your portfolio.
- >> **Specialty Funds** invest in a portion of an asset class and can help you "fine-tune" your portfolio.
- >> **Annual Fees** are the current fees the fund charges to cover its management, operating, and marketing expenses. The tables show the fees that would apply to a \$10,000 account (divide the annual fees shown by 10,000 to put them on a percentage basis). Actual fees are proportional to the amount you invest in that fund. For example, if the annual fee for a \$10,000 investment in a fund is \$2 but you only invest \$1,000, you would be charged $(\$1,000 \div \$10,000) \times \$2$, or 20 cents for a year. Fees may change in the future.
- >> **Long-Term Fees** are the value in "Today's Dollars" of the total fees that would be charged over 30 years, assuming a \$10,000 initial investment.
- >> **"PB"** stands for performance benchmark. It allows you to see how well the fund is doing relative to the performance of the market sector it is trying to beat. Note that index funds are only trying to approximate the returns of their benchmarks. Benchmarks do not have costs.



Performance Summary as of June 30, 2005

	Fees Per \$10,000 Account		Annual Average Investment Returns After Deducting Fees			
	Annual Fees	Long-Term Fees	Previous Quarter*	Previous Year	Previous 5 Years	Previous 10 Years
BALANCED FUNDS						
<i>Core Balanced Funds</i>						
FRS Select Conservative Balanced Fund	\$11	\$343	1.80%	6.20%	3.14%	--
PB: Conservative Balanced Aggregate Index	--	--	1.86%	6.27%	1.85%	--
FRS Select Moderate Balanced Fund	\$7	\$223	1.76%	9.01%	3.40%	--
PB: Moderate Balanced Aggregate Index	--	--	1.79%	8.85%	1.82%	--
FRS Select Aggressive Balanced Fund	\$15	\$467	1.15%	9.17%	1.14%	--
PB: Aggressive Balanced Aggregate Index	--	--	1.23%	8.83%	-0.19%	--
MONEY MARKET FUNDS						
<i>Core Money Market Funds</i>						
FRS Select Yield Plus Money Market Active Fund	\$7	\$212	0.72%	2.19%	2.73%	--
PB: Institutional Money Market Index	--	--	0.75%	2.26%	2.72%	--
INFLATION-PROTECTED SECURITIES FUNDS						
<i>Core Inflation-Protected Securities Funds</i>						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund	\$2	\$60	3.03%	9.31%	--	--
PB: Lehman Brothers TIPS Index	--	--	3.05%	9.34%	9.99%	--

* Not annualized.

	Fees Per \$10,000 Account		Annual Average Investment Returns After Deducting Fees			
	Annual Fees	Long-Term Fees	Previous Quarter*	Previous Year	Previous 5 Years	Previous 10 Years
BOND FUNDS						
<i>Core Bond Funds</i>						
FRS Select U.S. Bond Enhanced Index Fund	\$5	\$151	3.04%	6.75%	7.47%	6.87%
PB: Lehman Brothers Aggregate Bond Index	--	--	3.01%	6.80%	7.40%	6.83%
Pimco Total Return Fund	\$56	\$1,835	3.17%	7.62%	8.01%	7.56%
PB: Lehman Brothers Aggregate Bond Index	--	--	3.01%	6.80%	7.40%	6.83%
<i>Specialty Bond Funds</i>						
Fidelity Intermediate Duration Pool Fund	\$20	\$619	2.50%	5.60%	7.28%	6.65%
PB: Lehman Brothers Intermediate Gvt/Credit Index	--	--	2.48%	4.77%	6.87%	6.34%
Pimco High Yield Fund	\$50	\$1,623	3.30%	12.06%	7.61%	7.93%
PB: Merrill Lynch BB/B High Yield Index	--	--	3.05%	10.50%	7.36%	7.24%
U.S. STOCK FUNDS						
<i>Core U.S. Stock Funds</i>						
FRS Select U.S. Stock Market Index Fund	\$2	\$60	2.22%	8.06%	-1.35%	9.93%
PB: Russell 3000 Index	--	--	2.24%	8.06%	-1.35%	9.92%
Pioneer Fund	\$61	\$2,015	0.24%	8.84%	-0.75%	10.72%
PB: S&P 500 Index	--	--	1.37%	6.32%	-2.37%	9.94%
<i>Specialty U.S. Stock Funds</i>						
American Funds Investment Company of America Fund	\$33	\$1,042	1.12%	7.97%	3.11%	11.67%
PB: S&P 500 Index	--	--	1.37%	6.32%	-2.37%	9.94%
Prudential Mid-Cap Quantitative Core Equity Fund	\$35	\$1,109	4.52%	15.22%	8.44%	--
PB: S&P Mid-Cap 400 Index	--	--	4.26%	14.03%	8.51%	14.66%
FRS Select U.S. Large Growth Stock Active Fund	\$50	\$1,617	5.30%	3.68%	-9.72%	--
PB: Russell 1000 Growth Index	--	--	2.46%	1.68%	-10.36%	7.40%
Fidelity Growth Company Fund	\$60	\$1,979	5.66%	6.13%	-7.41%	10.22%
PB: Russell 3000 Growth Index	--	--	2.55%	1.90%	-9.93%	7.13%
Fidelity Low-Priced Stock Fund***	\$73	\$2,458	3.17%	16.75%	18.87%	16.82%
PB: Russell 2000 Index	--	--	4.32%	9.45%	5.71%	9.90%
American Beacon Small-Cap Value Fund	\$89	\$3,076	4.04%	15.48%	22.86%	0.00%
PB: Russell 2000 Value Fund	--	--	5.08%	14.39%	16.12%	13.89%
T. Rowe Price Small-Cap Stock Fund	\$94	\$3,275	2.51%	9.70%	8.34%	12.89%
PB: Russell 2000 Index	--	--	4.32%	9.45%	5.71%	9.90%
FOREIGN STOCK FUNDS						
<i>Core Foreign Stock Funds</i>						
FRS Select Foreign Stock Index Fund**	\$2	\$60	-0.62%	14.12%	0.00%	--
PB: MSCI World ex U.S. Index	--	--	-0.78%	14.55%	-0.31%	5.56%
American Funds Euro-Pacific Growth Fund**	\$54	\$1,764	0.81%	15.12%	0.47%	9.60%
PB: MSCI EAFE Index	--	--	-0.75%	14.13%	-0.17%	5.57%
<i>Global Stock Funds</i>						
American Funds New Perspective Fund**	\$54	\$1,764	0.24%	9.00%	1.03%	11.15%
PB: MSCI World Index	--	--	0.61%	10.59%	-1.65%	7.51%

* Not annualized.

** These funds may have restrictions on your ability to trade. Please also review the excessive fund trading policy. Prior to July 2002, actual historical performance data has been adjusted for fees and/or designs for multiple manager designs specific to the FRS.




*** This fund is closed to new money effective 8/1/04.



BEFORE YOU CHANGE YOUR INVESTMENT PLAN FUNDS, get professional guidance.

Find out which funds fit your needs and risk tolerance. **Remember, past performance of a fund does not guarantee future results!**

CALL the MyFRS Financial Guidance Line at 1-866-44MyFRS (1-866-446-9377; TTY 1-888-429-2160), or **VISIT** www.MyFRS.com for:

-  Free guidance and in-depth information on all investment funds offered under the FRS Investment Plan, including Financial Engines' *Fund Score Cards* and the *Fund Profiles*, *Fund Details*, and *Investment Fund Summary*, which are updated regularly. These reports discuss the fees, investment strategies, and other factors that may significantly affect the fund's performance.
-  A status of all the funds under the SBA's investment manager monitoring guidelines.
-  Daily account transfers or withdrawals, if the fund does not have transfer restrictions.

Quicken **The Pace** **Of Your Retirement Planning!**

Attention Quicken® and Microsoft Money® users: You can now add your Investment Plan account balance to your Quicken® or Microsoft Money® programs and see your updated balance along with the rest of your finances.

This enhancement is only available to Investment Plan participants who are registered to use Quicken® or Microsoft Money®. Registered users will need to provide Quicken® or Microsoft Money® with permission to access their Investment Plan account information. Once you provide permission, your account information can be easily viewed and tracked through your Quicken® or Microsoft Money® program.

For more information on how to use Quicken® or Microsoft Money® to track your Investment Plan earnings, call CitiStreet today at 1-866-446-9377, and select Option 4.

This Performance Summary is intended for use in connection with the FRS Investment Plan, pursuant to Florida law, and is not intended for use by other investors. Sections 121.4501(8)(b)4 and 121.4501(15)(b), Florida Statutes, incorporates the federal law concept of participant control, established by regulations of the U.S. Department of Labor under Section 404(c) of the Employee Retirement Income Security Act of 1974. If you exercise control over the assets in your Investment Plan account, pursuant to Section 404(c) regulations and all applicable laws governing the operation of the Investment Plan, no program fiduciary shall be liable for any loss to your account which results from your exercise of control.